

March 26, 2020

Crisis Working Group Report: Crisis Business Continuity and Trade

In order to help Canadian governments confront the public health and economic crisis resulting from the spread of the COVID-19 virus, the C.D. Howe Institute has established several working groups to rapidly distill expert policy advice. This working group has been established to address challenges for business continuity and trade. It is co-chaired by Dwight Duncan (Senior Strategic Advisor at McMillan LLP and former Ontario Minister of Finance) and Jeanette Patell (Vice-President of Government Affairs and Policy for GE Canada). Its membership includes industry experts and economists. Support from the C.D. Howe Institute is provided by Daniel Schwanen (Vice-President, Research) and Grant Bishop (Associate Director, Research). Meeting weekly, this group will identify and prioritize policy challenges and communicate members' views in published communiques. The group's first meeting was held on Tuesday, March 24, 2020.

In this meeting, the working group recommended urgent and immediate implementation of measures by Canada's federal government to ensure continuity for businesses and not-for-profits – and preserve cashflow to families – through this crisis. These recommendations for immediate action are:

- subsidization of wages (effective pre-emptive delivery of Employment Insurance through employers);¹
- government backing of lines of credit for businesses through financial institutions to cover wages and fixed costs;²
- immediate reduction of tariffs on critical imports;
- publication of economic data with heightened transparency and frequency; and
- clear identification of which “critical” sectors will continue to operate during public health measures.

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- 1 For elaboration, see: C.D. Howe Institute. 2020. “Enhanced Government Credit Facility Needed: Crisis Working Group on Monetary and Financial Measures,” March 25. Available online: <https://www.cdhowe.org/council-reports/enhanced-government-credit-facility-needed-crisis-working-group-monetary-and-financial-measures>
 - 2 For elaboration, see: Robson, William and Grant Bishop. 2020. “Job subsidy from Ottawa is key to getting through the COVID-19 crisis,” C.D. Howe Institute. 25 March. Available at: <https://www.cdhowe.org/intelligence-memos/william-bp-robson-and-grant-bishop-%E2%80%93-job-subsidy-ottawa-key-getting-through-covid>.



March 26, 2020

As immediate priorities, the working group also highlighted:

- immediate supply chain challenges for the manufacture of medical devices (e.g., ventilators) that are vital in the current public health crisis; and
- the risks to domestic food supply if labour and credit is impaired for the agricultural sector.

This working group identified three immediate needs for policy support to ensure business continuity:

1. preserving people (i.e., preventing layoffs and safeguarding mobility for critical labour);
2. backstopping credit/liquidity (i.e., cash to cover fixed costs); and
3. safeguarding production/supply chains (i.e., flow of inputs and critical goods).

In all measures, this working group urged governments to rapidly shift to an execution mindset and adjust risk tolerances. The perfect must not be the enemy of the urgent.

Urgency of Government Action to “stop the bleeding”

This working group highlights unprecedented risks for business continuity. Self-isolation and “social distancing” measures have effectively shut down major segments of Canada’s economy. With impaired supply chains and as a result of public health measures, **production by many businesses has halted**. In the face of cashflow constraints, **many businesses and not-for-profits will not be able to meet payroll and fixed costs** (e.g., rent and debt servicing obligations). Imminent layoffs of workers or closure will compromise families’ abilities to meet immediate needs and hinder economic recovery once public health measures are lifted. Simultaneously, employers in many “critical” sectors (e.g., agriculture, food distribution and grocery retail, manufacturing of medical equipment) face workforce challenges and confusion about the applicability of shut-down measures to their operations.

This **unprecedented crisis demands a scale, scope and speed for support measures** by governments to households, businesses, not-for-profits and financial institutions beyond anything in any previous economic crisis. Earlier financial or monetary crisis measures could be targeted to specific systemically important institutions or major industrial sectors. In the present circumstances, government must leverage creative (and imperfect) means of getting support directly to employers and households within a matter of days. **The necessary measures can only be analogized to wartime mobilization.**

Therefore, governments must act rapidly and creatively to deliver direct financial aid that will reach impacted households and support employers. **Public servants must adjust their risk tolerance to prioritize action over analysis and speed of execution over policy perfection.** Decisions in the next days by households and employers may severely impact welfare and hinder economic recovery. Governments must act quickly to stabilize expectations about the support to come and “stop the bleeding”.

March 26, 2020

Preserving people

The working group stressed the **lasting economic damage threatened by the cascading layoffs from shut down and its knock-on effects**. Workers reportedly filed 929,000 claims for Employment Insurance (EI) during the week of March 16 to 22.³ This number of claims would represent job losses as a share of **Canada's** that exceed any previous month on record (including the worst months of the Great Depression).

The working group underscored the **impact of layoffs on lost income and psychological toll for families**. As well, the working group doubted the administrative ability of the EI system to rapidly process and deliver cash benefits for this number of claims – notwithstanding future waves without “tourniquet” measures to stave off layoffs. These dislocations will inhibit recovery.

The **working group endorsed immediate subsidization of wages to the level of EI benefits** as a form of social insurance and as a rapid measure to preserve cashflow to households. Wages subsidies would effectively pre-emptively pay EI benefits through existing employers, up to 55% of insurable earnings. Although over-inclusive if not every employee will be laid off, this is quicker than laid off workers claiming EI and appropriate since production across the economy has effectively halted.

Using its data on EI remittances through the Canada Revenue Agency (CRA), the federal government can target wage subsidies to each employer based on the insurable earnings of its employees. However, the working group recognized the potential administrative difficulty in “reversing the flows” (i.e., direct payments to employers rather than remittances by employers to the CRA). The immediate solution is for the federal government to **announce guarantees for government-backed lines of credit (GBLOCs) at accredited financial institutions** at least to cover this wage subsidy.

The working group underscored that **wage subsidies should not be the only form of support**. Providing wage subsidies is not an “or” design but an “and”. Direct income and credit support for families will also be essential through the crisis – particularly for individuals who work under contract or in the “gig” economy (estimated at over 8% of the labour force in 2016 by a recent Statistics Canada study).⁴

3 Globe & Mail. 2020. “Unemployment claims reach nearly one million as businesses battered by coronavirus pandemic.” March 24. Available online: <https://www.theglobeandmail.com/business/article-unemployment-claims-reach-nearly-one-million-as-businesses-battered-by/>.

4 Jeon, Sung Hee; Liu, Huju; Ostrovsky, Yuri. 2019. “Measuring the Gig Economy in Canada Using Administrative Data.” Statistics Canada. 16 December. Available online: <https://www150.statcan.gc.ca/n1/daily-quotidien/191216/dq191216d-eng.htm>.

March 26, 2020

Backstopping Credit/Liquidity

Alongside wage subsidies, broader support for businesses is urgently required – particularly to ensure continuing payment of fixed cost obligations for property, equipment and debt, as well as obligations for payments to suppliers. Closure of businesses and default on obligations will make “restart” more difficult and recovery more protracted.

Businesses could not self-insure for this “black swan” event. Government must step in immediately to backstop liquidity for businesses across the economy. For the Canadian economy, the federal government alone can serve as the “lender of last resort” and borrow on behalf of individually credit-constrained households and firms.

This working group **endorsed government-backed lines of credit (GBLOCs)** by which the federal government would guarantee business credit through financial institutions.

This working group emphasized the need to **leverage businesses’ existing credit relationship and lending channels** – rather than for government to try to build their own direct-to-business mechanism. The appropriate response is to “freeze in place” businesses’ existing credit facilities by guaranteeing these. Working group members believed that support should **extend beyond banks and credit unions to non-bank financial institutions** – particularly asset-based lenders (i.e., financing companies providing security for durables and equipment financing).

The trade-off for the necessary speed will be that **certain high-risk borrowers will be backstopped**. In the economic urgency of the present crisis, **policy-makers should accept this risk**. Time is of the essence and the federal government lacks the administrative ability to target support given the scope required.

Safeguarding Critical Production/Supply Chains

The working group highlighted the **potential challenges for domestic supply of urgently needed medical equipment and personal protective equipment (PPE)**. The European Union has proposed export restrictions on PPE and medical equipment that may hinder Canadian imports and availability of these vital medical supplies. For example, Canada imported 53 million pairs of surgical gloves in 2018, and surgical masks have faced scarcity amid demand from the public. Additionally, while medical device manufacturers are working to ramp up, diversify production and create new partnerships (e.g. auto makers), critical medical devices, including ventilators, are not currently produced in Canada.

March 26, 2020

The working group urged policy makers to ensure clarity around requirements for the domestic health systems and safeguard the international movements of inputs and vital final products. **Policy-makers must urgently identify domestic inventories of critical supplies and exposure to shortages.** The working group also recommended immediate **elimination of tariffs on importing such critical products.**

Working group members highlighted the diminished public trust for Canadian food security, evidenced through the “grocer-runs” and hoarding of food in the past weeks. The working group also underscored real risks to Canada’s agricultural sector, agricultural imports and domestic food supply. In particular, domestic cultivation is highly reliant on seasonal foreign workers: approximately 60,000 temporary foreign workers usually work in Canadian agriculture. **Canada’s agricultural sector will face labour challenges if international movements of people remain restricted.**

Additionally, over 900,000 foreign workers annually work in agriculture in the United States. With extensive imports from the U.S., the restrictions on foreign entry into the U.S. may inhibit stateside agricultural output and, consequently, **Canada could face scarcity and increased costs for food imports from the U.S.**

The agricultural sector’s access to liquidity (i.e., credit) is also a major vulnerability. Working group members believe that announced **support through Farm Credit Canada will likely be insufficient.** Most farmers do not deal directly with Farm Credit Canada but rather access working capital or equipment financing through banks and credit unions. As for businesses broadly, government backing of credit lines through existing lenders is appropriate as an expedient channel for safeguarding liquidity for farmers.

Openness around Timelines and Higher Frequency Economic Data

Working group members underscored the present paralysis facing businesses – and the likely consequence of **exaggerated layoffs in the coming week.** Businesses are **increasingly shifting towards views for protracted shutdown and moving to conserve cash through layoffs** in order to improve chances of survival. Suppliers are increasingly unwilling to ship products to customers without immediate payment. The unwillingness to extend accounts payable credit will be a further inhibition to the flow of goods and constraint on economic activity.

Working group members also emphasized the need for more and quicker economic data. This is essential for public and commercial understanding of the economic impacts, as well as informed contributions by civil society to policy-making. The crisis has caused jarring decline in economic

March 26, 2020

activity and the lag on usual indicators is unacceptable. Statistics Canada must move to rapidly publish estimates as soon as these are compiled – even understanding that these will be subject to revision.

Given lead-time to process reported data into aggregate statistics, **Statistics Canada should also make granular industry-level data rapidly available.** Governments should also **publish aggregated administrative data without lag** – such as EI claims and filings of layoff notices by large employers. Openness and frequent releases around datasets such as public transit usage and road traffic (e.g., from tolls) and electricity demand by Crown power entities would also provide increased understanding of economic impacts. Government should also consider disclosing aggregate industry statistics in key network/infrastructural sectors – particularly transportation (e.g., cargo and passenger air transport, rail volumes and shipments through Canadian borders).

Working Group Members

Dr. Sylvain Charlebois

Professor, Senior Director, Agri-Food Analytics Lab, Dalhousie University

Dwight Duncan (Working Group Co-Chair)

Senior Strategic Advisor McMillan LLP

Rick Ekstein

President & CEO, Phaze 3 Management

Keith Halliday

Director of Centre for Canada's Future, Boston Consulting Group

Glen Hodgson

Fellow-in-Residence, C.D. Howe Institute

Caroline Hughes

Vice-President of Government Relations, Ford Motor Company of Canada

Jeanette Patell (Working Group Co-Chair)

Vice-President of Government Affairs and Policy, GE Canada

Trevor Tombe

Associate Professor of Economics and Public Policy, University of Calgary